

# INDUSTRIAL DEVELOPMENT BONDS [IDBs]

## Financial Assistance for Chula Vista Businesses

The Chula Vista City Council, acting as the City's Industrial Development Authority, has the ability to issue tax-exempt bonds for large industrial / manufacturing projects. Known as "Industrial Development Bonds" or IDBs", these tax-exempt bonds can raise up to \$10 million for manufacturing businesses or energy development projects.

### BENEFITS

Industrial development bonds offer low cost, long-term financing [up to 40 years] for a wide variety of capital expenditures related to business. Because IDBs are tax-exempt, they are more likely to attract investors. IDBs offer a borrower lower interest rates than conventional financing. Bonds can be fixed rate or variable at the borrower's option; over the last few years, floating rates have been as low as 1.6% and fixed rates have been in the 6% range.

#### Interest Rate Comparison 2000

	High	Low	Average
Prime Rate	11.50%	6.00%	8.39%
Taxable Bond	10.38%	3.33%	6.15%
Tax Exempt Financing	8.71%	1.62%	4.11%

### PROCESS

A financing team consisting of senior City staff, bond counsel and bond underwriters will be assembled to assist a company requesting industrial development bond financing. In addition to a letter of credit from a commercial bank, approval by the City's Industrial Development Authority and by the California State Industrial Development Financing Advisory Commission [CIDFAC] is required prior to issuance.

### ELIGIBILITY

Bond proceeds can be issued for businesses engaged in the following:

- Assembling, fabricating and manufacturing activities
- Processing of agricultural, mining and forestry products
- Energy development, production, collection or conservation
- Processing or manufacturing recycled or reused materials

#### Project Requirements

In order to be considered for industrial development bond financing, a project must demonstrate public benefit in that at least one job will be created for every \$50,000 of bonds issued.

#### Restrictions

- Businesses using bond proceeds to relocate from one California city to another must first make an effort to find another suitable site within the initial community.
- The maximum amount of an IDB issue is \$10 million per applicant, per public jurisdiction.
- The company's capital expenditures within the city, including the bond, are limited to \$10 million effective three years prior and three years post bond issuance.
- Total nation-wide issuance of IDBs by any one company may not exceed \$40 million.

### USES

Bond proceeds can be used to 1] acquire, construct or improve land, buildings and equipment; 2] purchase machinery and furnishings and/or 3] install landscaping. 95% of bond proceeds must be used for the defined project; bond proceeds can also be used to reimburse the costs of architects, engineers, attorneys and permits. If the bond proceeds are used to acquire an existing building, 15% must be used for rehabilitation. Up to 25% of the proceeds can be used for land acquisition.

### COSTS

The City of Chula Vista charges 0.25% of the bond proceeds to cover City expenses, such as staff time. Total issuance costs [including City fees, bond underwriters, bond counsel, etc.] cannot exceed 2% of the total amount financed. Costs can be paid from the bond proceeds and financed with the remainder of the project transaction. Debt service is the responsibility of the borrower.